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ARES ASIA LIMITED

安域亞洲有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 645)

RESULTS OF INTERNAL CONTROL REVIEW

This announcement is made by Ares Asia Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements (the “**Announcements**”) of the Company dated 13 August 2021, 5 October 2021, 19 October 2021, 18 August 2022, 8 September 2022 and 15 September 2022 in relation to, among others, (i) the resignation of the auditor, (ii) the Resumption Guidance, (iii) the appointment of independent reviewer, (iv) the results of the Independent Review, (v) the Additional Resumption Guidance, and (vi) the engagement of Crowe (HK) Risk Advisory Limited (“**Crowe**”) for the Internal Control Review. Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Announcements.

INTERNAL CONTROL REVIEW

Background

As disclosed in the announcement of the Company dated 8 September 2022, the Board would take certain remedial actions to address the concerns identified in the Independent Review, including the engagement of Crowe, an internal control adviser, to conduct the Internal Control Review. The Internal Control Review will assist the Board to address the concerns identified in the Independent Review and fulfill the Additional Resumption Guidance to conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet obligations under

the Listing Rules. As at the date of this announcement, Crowe has completed the first stage of the Internal Control Review and has certain key findings and made certain recommendations.

Scope of the Internal Control Review

The scope of the Internal Control Review is to (i) review internal controls and procedures to meet the Group's obligations under the Listing Rules; (ii) review implementation status of the remedial action undertaken by the Group on the internal control weaknesses identified from the Independent Review.

For the purpose of the Internal Control Review, Crowe has covered the Company and its two major subsidiaries, Ares Asia Resources Pte Ltd ("AAR") and Ares Repco Limited ("ARL").

Findings and recommendations for improvement

The internal control findings identified by Crowe in the Internal Control Review and the recommendations for improvement are as follows:

1. Enhancement on implementation of code of conduct (risk level: medium)

(a) Commitment of compliance with the latest policies

Finding: The Company adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules. An annual written undertaking to adhere to the model code was signed by each Director, but the scope should be expanded to other code of conduct, for example, to adhere to the latest anti-fraud policy.

Recommendation: The existing mechanism of annual written undertaking should be expanded to include ethical requirements.

(b) Implementation of control over conflict of interest

Finding: A preventive control of managing conflict of interest is stipulated in the staff handbook that all executive Directors are required to sign declaration of any personal interests that raises conflict with their duties every six months. Returns are also required even if they have no interest to declare. Apart from a written declaration of conflict of interest made upon the Directors' appointment, no biannual declaration has been signed.

Recommendation: The existing mechanism for biannual declaration of conflict of interest by executive Directors should be properly implemented.

2. *Delegation, authorisation and reporting (risk level: medium)*

Findings: The Board delegated the day-to-day responsibilities to the senior management of the Company or its subsidiaries, while reserving certain key matters for the approval by the Board. As written delegation of authorities issued by the Board was not retained, it is uncertain whether the current delegation arrangement in practice (such as bank authorization and signing contract) was endorsed by the Board appropriately. In addition, the approval procedures and reporting protocol in terms of (i) approval authority by threshold for key operating procedures and (ii) key matters which need to be reported to the Board, have not been clearly defined in the existing policies and procedures.

Recommendations: Written delegation to senior management of the Company or its subsidiaries with approval from the Board should be retained for certain key operating procedures. An authorisation matrix should be established to set out the thresholds in monetary amounts or criteria at each level of approval authority, and a reporting protocol should be established to facilitate the Board oversight to key operating activities.

3. *Whistleblowing channel (risk level: low)*

(a) Independence of whistleblowing channel

Finding: As stated in the current whistleblowing policy, concerns over malpractice or impropriety can be raised and discussed with the head of division/department, chief operating officer, chief executive, chairman of the Company or the chairman of audit committee. It all depends on the position of the person involved and the whistleblowers' preferences. However, according to the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules, concerns should be raised to the audit committee directly.

Recommendation: All whistleblowing matters should be collected and investigated by the audit committee of the Company directly and independently.

(b) Disclosure of anonymous whistleblowing channel

Finding: The current whistleblowing policy is intended to assist individual employees within the Group only. Whistleblowing can be made in person or in writing, employees are required to put their name on the written complaints as anonymous complaints would usually not be considered. According to the CG Code, a whistleblowing policy and system should be established to both employees and those who deal with the issuer. Concerns over malpractice or impropriety should be raised on an anonymous and confidential basis.

Recommendation: An anonymous whistleblowing channel such as an email address should be established and made to the public by placing it in the Company's website, annual report or any other external communication channel for both internal and external stakeholders.

4. *Insurance coverage for directors' and officers' ("D&O") liabilities (risk level: low)*

Finding: Due to the suspension in the trading of the Shares, the Company has been unable to extend the D&O insurance, which expired in February 2022.

Recommendation: The Company should procure D&O insurance to cover potential legal actions against its directors and officers upon approval of the resumption of trading of the Shares.

5. *Further enhancement of written policies and procedures (risk level: medium)*

Findings: The Group has been continuously establishing and enhancing its written policies and procedures at entity and operational level in the areas of (i) notifiable transaction, (ii) human resources, (iii) compliance management, (iv) terms of reference for audit committee, (v) shareholders' communication, (vi) financial reporting and disclosure, (vii) cash and cash advance, (viii) tax and (ix) reporting and monitoring on connected transactions. The relevant existing mechanisms/procedures under implementation are to be recorded or enhanced in writing.

Recommendations: Written policies and procedures should be recorded or enhanced in accordance with the abovementioned aspects. The updated written policies should be approved by the Board. A regular review of the written policies should be carried out by the management at least once a year. Regular trainings should be arranged to ensure that employees are being notified and are familiar with the updated mechanism.

6. *Monitoring on cashflow and business performance (risk level: medium)*

Findings: At the beginning of each financial year, there is forecast of cash flow for the coming financial year based on management understanding on repatriation of capital and profit from trade or the occurrence of routine operating expenditure. Documentation of the cash flow forecasts with approval from the Board was not generally retained.

For monitoring the profitability of business, the annual financial budgets of the Group for the coming financial year should be prepared by the finance department in Hong Kong and Singapore respectively in each December, and they should be approved by the finance director. After that, a monthly financial analysis and evaluation of business profitability should be prepared with a detailed comparison to the result of same period of last year. An annual working summary should be prepared to provide (i) the variance analysis between budgeted and actual figures and (ii) the financial analysis of

annual results. However, due to the extra work and limited capacity of finance department during the suspension of trading in the Shares, the finance department ceased to perform the monthly financial analysis.

Recommendations: Annual cashflow forecast should be documented and approved by the Board. The practice of monthly financial analysis and evaluation of business profitability should be resumed.

7. Internet banking (risk level: medium)

Finding: Limits on transaction amounts in internet banking under the subsidiaries of the Company have not been set up.

Recommendation: An additional control shall be set up by establishing the transaction limits of internet banking, such as maximum transaction amount or daily withdrawal limits, with reference to the size of routine transactions, frequency of transaction and the use of bank account. The limits should be reviewed by the management on a regular and ongoing basis. Board approval should be obtained whenever there are changes for the limits.

8. Cash advance and reimbursement (risk level: low)

Finding: Cash advances are issued to employees for travel expenses and purchase of miscellaneous items; however, no threshold of cash advance was set up to restrict usage of cash advance, and no limits nor restriction on reimbursement for travel expenses, including entertainment expenses, was determined.

Recommendation: The Group should establish thresholds for the requisition and approval of the cash advance, and limits on reimbursement for travel expenses, including entertainment expenses, should be determined.

9. Connected transaction and notifiable transaction management (risk level: medium)

(a) Connected transactions

Finding: The policy on connected transactions specifies that the finance director of the Company is responsible for identifying and reporting all connected transactions to the company secretarial division and the Board. A quarterly report should be prepared to summarise (i) connected transactions entered during the quarter; and (ii) connected transactions that are likely to be executed in the coming quarter. The internal control procedures should be further enhanced in effective compliance with Chapter 14A of the Listing Rules.

Recommendation:

It is recommended that:—

- (i) written declarations of interest and connected persons should be signed by newly appointed directors and senior executives of the Company at the date of commencement of their appointment;
- (ii) written declarations of interest and connected persons should be signed by all existing Directors and senior executives of the Company at least annually;
- (iii) a list of connected persons should be maintained and it should be promptly circulated to subsidiaries if there has been any update; and
- (iv) all responsible parties should be trained on managing connected transactions for ensuring disclosures or approvals are timely made.

(b) Notifiable transactions

Findings: The finance director would be responsible for identifying and reporting notifiable transactions. However, there was no written policies and procedures for identifying, reporting and executing the notifiable transactions in compliance with the requirements under Chapter 14 of the Listing Rules.

Recommendations:

It is recommended that:—

- (i) the policy of managing notifiable transactions should be recorded. It should clearly define the responsibilities and duties for different departments of the Group on identifying, classifying, reporting and disclosing notifiable transactions based on the calculation of several percentage ratios testing;
- (ii) a clear transaction threshold based on business development should be established and approved by the Board at least annually to define significant transactions. The threshold should be stated clearly inside the written policy and all subsidiaries should be notified. All significant transactions should be reported to the finance director to confirm whether those transactions should be disclosed and these transactions should be subject to Board approval; and
- (iii) all responsible parties should be trained on managing notifiable transactions for ensuring disclosures or approvals are timely made.

Result of implementation status of the remedial action undertaken by the Group on the internal control weaknesses identified from the Independent Review

Reference is made to the announcement of the Company dated 15 September 2022. In respect of the following observations under the Independent Review, Crowe has reviewed the implementation status of the remedial actions to the observations by the Group as follows:—

1. Lack of guidance in 2020 Trading Policy and documentation

Implemented. Explicit guidance is given under the revised trading policy. Prepayment is allowed under back-to-back basis. In the event that there is prepayment made to supplier by using the Company’s own funding, additional controls procedures should be followed to mitigate the credit risk.

The revised trading policy stipulates that all transaction must conduct a background search to review and evaluate the credit status of customer and supplier annually. If supplier is unable to provide relevant information for background search, sufficient and appropriate evaluation should be provided to the Board for approval.
2. Incomplete or unsigned contracts

Implemented. A trade list has been established by the trading department to monitor the status of each contract:

 - a) Contacts have been checked whether they were properly uploaded in cloud and centrally filed in cabinet; and
 - b) An executive Director is responsible for reviewing original contracts for signature and stamp to ensure that contracts are properly authorised and approved before execution.
3. Payee was different from the contracting party

Implemented. The revised trading policy requires that the trading department should notify the finance department for any payments or receipts that are not made to/from contracting party. Procedures for handling such payment and receipt are also stipulated inside the policy.

A training session has been conducted to provide the finance and trading department a guidance on the revised trading policy.

Remedial actions of the findings identified in the Independent Review report have been satisfactorily implemented based on the abovementioned implementation status.

Follow-up review of the Internal Control Review

The Board considered and accepted all of the recommendations made by Crowe and are in the process of formulating and implementing remedial actions. Crowe will conduct a follow-up internal control review to confirm if the recommendations have been implemented and the deficiencies noted in the first stage of the Internal Control Review have been rectified. The results of the follow-up review and the final report are expected to be ready by mid to late December 2022. The Company will keep the Shareholders and its potential investors informed of the results of the follow-up review.

CONTINUED SUSPENSION OF TRADING

In accordance with Rule 13.50 of the Listing Rules, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2021 and will remain suspended until further notice.

Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

By Order of the Board
ARES ASIA LIMITED
LAI Yi-Chun
(also known as **Robert LAI**)
Chairman

Hong Kong, 15 December 2022

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. LAI Yi-Chun (also known as Mr. Robert LAI) (Chairman) and Mr. LUO Xiao; one non-executive Director, namely Ms. RUAYRUNGRUANG Woraphanit; and three independent non-executive Directors, namely Mr. CHANG Jesse, Mr. YEUNG Kin Bond, Sydney and Mr. LIU Ji.